Migration Letters

Volume: 21, No: S7 (2024), pp. 35-40

ISSN: 1741-8984 (Print) ISSN: 1741-8992 (Online)

www.migrationletters.com

The History And Evolution Of Korean Accounting Standards

Giseok Nam*

Abstract

This study discusses how Korean accounting standards have evolved and how they have increasingly influenced both the domestic economy and the international accounting environment. The paper argues that Korean accounting standards have significant implications for Korean economic growth, globalization, and integration with International Financial Reporting Standards (IFRS). The paper traces their historical development from an initial ad hoc response to industrialization through adoption of IFRS. IFRS has increased transparency and drastically improved financial reporting quality and the basis for market valuation. The changes promoted by IFRS have helped Korean firms be more competitive and signaled to international capital markets that they can be more comfortably be trusted. The paper then outlines future challenges and opportunities such as integrating Environmental, Social, and Governance (ESG) factors with traditional accounting data and using IT to create much more efficient and responsive accounting that is useful for both management and financial statement users. The paper concludes with comments on how Korean accounting regulators such that increased convergence with IFRS, and ultimately global accounting harmonization would make Korea's financial markets larger and liquid allowing them to take their place on the world stage.

Keywords: *Korean Accounting Standards, International Financial Reporting Standards, Accounting harmonization*

Introduction

The objective of this study is to trace the historical development of Korean accounting standards, and to examine their impact on the Korean economy and the global accounting environment. While the former i[1]s related to issues of economic growth and globalization, the latter concerns itself with Korean accounting harmonization with international standards. Through an understanding of how Korean accounting standards have evolved, this study aspires to provide implications for current accounting practice and policy making.Korean accounting standards began in their current iteration in the 1960s and have been shaped in the face of various economic and societal fluxes. International Financial Reporting Standards (IFRS) was adopted to promote transparency in financial markets and secure international trust for Korea following its 1997 financial crisis (Kwon, Na, & Park, 2019). These changes have provided many challenges and opportunities for Korean firms and have played a critical role in repositioning the Korean economy internationally (Lee, 2019).The literature suggests that IFRS has improved accounting transparency, financial reporting quality, and market valuation in South Korea (Kwon, Na, & Park, 2019). This supports the idea that IFRS is enhancing value relevance of accounting information, particularly in highly competitive industries (Lee, 2019). The changes prepare companies for more accurate financial forecasting and contribute to their credibility in global financial markets where they might be judged based on an accounting system that is recognized as a de facto standard (Lee, Seo, & Cheung, 2016).

The value relevance of financial information has increased in South Korea following the mandatory adoption of IFRS, which improved the association between financial information and stock prices and returns (Key & Kim, 2017). This suggests that IFRS is more than a framework for internationalizing accounting standards and pertains more

College of Business, Hankuk University of Foreign Studies, South Korea.

specifically to the influence of IFRS adoption on financial decision making by firms and the information use by investors, respectively. Such research about IFRS adoption in Korea demonstrates how the development and internationalization process of Korean accounting standards is improving the transparency of financial markets and the quality of corporate financial reporting through harmonization with the global accounting environment.

II. Historical Background of Korean Accounting Standards

The Korean accounting environment has undergone substantial change throughout history. The introduction of the Japanese-style financial system and the accounting system is considered a big change in the Korean financial and accounting system during the Japanese imperialist era. Under Japanese colonial rule, Korean companies used the Japanese accounting standards and practices, and transparency over financial transactions and management was greatly damaged during exchange between Korean companies and Japanese companies. At that time, regulations were introduced that Korean companies must follow regarding external auditing and financial reporting. Then, in 1945 when liberation was declared the new government commenced with law reform and transition to a liberal democracy and changes began in the accounting and finance sector. The new government introduced a new financial and economic system and started to consider establishing Korean Accounting Standards. It was then that the revision and development of Korean Accounting Standards was initiated, paved by changes necessary to match the growth and industrialization of the Korean economy. After liberation, South Korea gradually expanded its economic relations with the international society and started to participate gradually in international financial markets.

South Korea saw a rapid onset of industrialization during the 1960s. This period saw the swift rise and establishment of companies in various industrial sectors. Industrialization was centered on manufacturing, construction and trade, and the establishment of these businesses revolutionized the Korean economy. During the initial phase of industrialization, many companies operated in the absence of an effective accounting system that could provide a true picture of their operations and financial status. They began to raise capital from investors and financial institutions. An important legal requirement of this phase was to formulate appropriate accounting systems to be able to observe the accounting and auditing standards. The only body capable of formulating accounting standards and regulations was the government. Government began to require the companies to formulate and apply accounting standards and submit various financial reports. These regulations were an important component of how the government helped in support of corporate growth and financial activity. One of the other legal requirements of this process was that the company submit its accounts to an audit by an independent auditor. This devised an independent opinion on the true and fair view of the company and formed the basis of its confidence in the investors and financial markets.

Developed in Korea, the purpose of the early accounting standards was to increase financial transparency. Korea is representative of the way in which early accounting standards were introduced during the development phase of many countries. From the 1960s to the early 1970s, Korea enjoyed rapid economic growth and industrialization. New companies emerged in a variety of industries, existing companies grew, and funds were mobilized and attracted. At the same time, technological advancements made it possible for Korean companies to increase their foreign dealings, and they sought to expand their international transactions. To do so, they were required to follow accounting principles that were broadly recognized throughout the world, and they endeavored to raise funds from foreign investors that had stronger requirements. The primary reasons for the early

accounting standards were to increase financial transparency in Korea so that the performance and financial position of the company may be accurately assessed by investors, creditors, and others, thereby increasing corporate credibility and permitted the companies to raise more funds. In addition, they provided information essential to financial markets so that they may better serve their assigned functions, and thus helped develop financial markets by providing information on companies' transactions with other entities that assisted investors, creditors, and others assess the risk and return of the companies' investments.

Korean Generally Accepted Accounting Principles (Korean GAAP) formed the basis of the accounting system of South Korea. Companies used Korean GAAP to prepare and report financial information in South Korea. The principles provided the accounting treatment, financial reporting, and auditing standards that the companies followed. Korean GAAP was administered by the KOSDAQ, the Financial Supervisory Service, and other regulatory bodies to which companies had to adhere in their financial reports. KOSDAQ was also responsible for operating and overseeing South Korea's securities market. The exchange set out standards incorporated into the rules that corporations had to follow, both concerning accounting standards as well as preparation of financial information. By assuring the confidence of investors and enhancing transparency in the market, these standards became a critical element. The Financial Supervisory Service (FSS) was created to ensure the safety and transparency of South Korea's financial institutions and companies. Within the financial and accounting industry, the FSS played the role of a regulator and supervisory authority, checking over firms' financial statements and performing audits to confirm the regulations were complying. The FSS also came up with and enacted laws and regulations to try to prevent fraud as well as financial crises within the country's markets.

III. Development of accounting standards and internationalization

The 1990s saw a major transformation of the international economic environment. International financial markets became more integrated and interconnected with advances in globalization and the digital revolution, and Korean companies were increasingly compelled to evolve their financial and managerial strategies from a global viewpoint to compete and raise capital in capital markets worldwide. Against this backdrop, the international economic environment continued to evolve, necessitating, as a condition for the international recognition of a company's financial information, compliance with international standards.

Since the 21st century, the international economic environment has been transformed in unimaginable ways. As companies increasingly need to compete in international markets and deal with investors, the presence of international standards has become one of the determinants of a company's international competitiveness. Global investors and financial institutions require a company's financial information to be of the highest quality and as universally comparable as possible, thus demanding that the accounting system be based on international standards. In short, compliance with international standards was a prerequisite to attracting funds from international investors and to securing the confidence of the financial markets. IFRS implementation further invigorated domestic capital markets, rendering domestic companies that much more appealing to foreign investors.

Talks for the adoption of International Financial Reporting Standards (IFRS) began in the early 2000s. Various stakeholders, including financial regulators, companies, and accounting professionals, held discussions and consultations on the benefit of IFRS and the necessity of its adoption. In 2007, The Korean National Assembly enacted the IFRS Act for the Adoption of International Financial Reporting Standards, and the Financial Supervisory

Service (FSS) formulated the Detailed Standards on Execution of IFRS in preparation for the adoption of IFRS. Companies received on and offline education, training, from domestic and international experts, amended their internal systems and processes to fit in

IFRS and submitted their reviewed financial statements and auditor's opinion on IFRS compliance to relative supervisory authorities including their external auditor, enabling accurate and transparent financial information, and enhancing the soundness of the financial market.

Adoption of IFRS in South Korea helped enhance the quality of financial reporting which led to greater trust from domestic and international investors, as proven in a study of the economic effects of IFRS adoption (Kwon, Na, & Park, 2019). Specifically, its adoption has been positively influenced by i) increased transparency of firms' financial information, and ii) improved international comparability of financial reporting (Gum, Dupuy, Baker, & Blum, 2017). These changes have greatly contributed to enhancing the competitiveness of Korean firms in global financial markets. Also, the adoption of IFRS has strengthened the faith and trust of shareholders and other stakeholders by enhancing the quality and transparency of financial information. It has also against the performance and financial position of companies and has helped to provide more useful information to investors and credit institution thus also improving the transparency of financial statements. The adoption of IFRS has also enhanced the comparability of Korean companies with overseas enterprises, thereby increasing the ability of international investors to analyze and understand the financial information about Korean companies and encouraging the inflow of foreign capital. Lastly, the links with the international financial market has also significantly tightened. By relaxing the information gap with overseas companies and fortifying the instability and transparency of Korean financial markets, Korea has improved its ability to adapt to the international economic environment.

Following the Improvements in the sustainability of accounting information and the comparability of financial reporting; improved understanding of corporate performance in highly competitive industries in a country that adopted IFRS (Lee, 2019) Improvements in the efficiency with which firms can raise capital; and more accurate and reliable information to investors (Tabiletti, Marchini, Furlotti, & Medioli, 2021). Harmonization of accounting standards of Korean firms with International Accounting Standards has made Korean firms more accountable and transparent globally; in line with the growing global trend toward greater corporate social responsibility and sustainable growth in the long term (Arimany, Fitó, & Orgaz, 2015).

There have been side effects that have arisen from the jump to IFRS. The transition to IFRS was costly and time-consuming. Companies had to enhance their internal systems and processes, prepare new financial reports, and go through audits. In some situations, a departure from Korean GAAP made financial information difficult to compare. This made it hard for a while to make sense over financial information. A few intricate accounting standards demanded that companies perform accounting and financial work that took more effort and expertise.

IV. Current Korean Accounting Standards and Prospects

Today, corporate social and environmental responsibilities are very significant. Companies consider their impacts on society and the environment very seriously, and sustainability reports are often published so that they can be transparently disclosed. Therefore, as the trend toward transparency and the disclosure of ESG becomes more active, the Korean accounting system is also gradually evolving under the Korean Accounting Standards Board (KASB) to develop standards related to the preparation and presentation of relevant financial information so that companies can integrate ESG information into their financial reports so that they can include ESG information in their financial reports. If a company's social responsibilities and impacts are clear to investors and stakeholders through sustainability reports, which are all about the transparent provision of ESG information,

then the company's intention can be seen as more reliable by investors, and this will give the company a competitive advantage in financial markets. In other words, companies that more accurately manage and account for financial information, including ESG information, are expected to be considered true ESG leaders, and to be able to attract funds and receive good ratings from investors accordingly in financial markets. This shows that this leads more companies to pursue sustainability management, and enhances their social and environmental performance, which will lead to expansion of corporate social responsibility and a contribution to sustainable growth.

Technological advancements will enhance the accuracy of accounting functions. An automated accounting system can reduce error and promote the accuracy of financial data by capturing transaction data in real time. The automation of processes and faster analytics of data will shorten the financial reporting process and enable more timely decision-making, affording companies the ability to monitor and respond to business performance in real time. Big data technologies will enable companies to employ more data and reflect more granularity in financial reports. Data analytics technologies can improve the financial outlook or forecast and permit companies to model future financial conditions more accurately. Blockchain is a technology that can add transparency to transactions and preclude tampering, and its use will improve the reliability of accounting records. The reduction of intermediaries and the automation of transactions through smart contracts will assist in reducing transaction costs and fulfilling accounting standards. The Internet of Things (IoT) will enable companies to know the status or location of their assets in real-time and manage them, and this will have an impact on financial reporting and asset valuation. Cloud computing will enable organizations to manage processing and data storage very cost-effectively, which is expected to usher in reduced IT costs and augment the financial position of a company.

Companies are now required to prepare and report their financial information in line with internationally accepted standards by strictly adhering to International Financial Reporting Standards (IFRS). This will ensure greater comparability of financial information and is very important for promoting the belief of international investors. They should endeavor to facilitate communication with international investors by preparing their financial reports in English. They should actively participate in international investor conferences and investor meetings to communicate more with global investors and have the diverse opportunities for communication and connection. They can forge ties with multinational corporations and financial institutions and consult with them to discuss and advocate Korea's position on international financial regulations and standards. They should produce sustainability reports and integrate such ESG information into financial reports so they can continue to comply with international sustainability standards. They should join international ESG initiatives so they can mutually establish international sustainability standards. From now on, a company should begin to consider entering the international market, set up a global expansion strategy, and concentrate on increasing their international competitiveness.

V. Conclusion

The historical background surrounding Korean accounting standards has evolved. It was under Japanese rule, the period of independence after liberation and industrialization from the 1960’s onward. The Japanese-style accounting system came about during the Japanese occupation and domestic accounting standards were established after Korea’s liberation. From the 1960’s onward, with rapid industrialization, in order to understand the management and financial status of companies, an accounting system was developed accordingly.

As the basis for Korea’s accounting standards shifted from local standards to international standards in the 1990s and it became an era to adopt international accounting standards, discussions took place in the 2000s for the adoption of the International Financial Reporting Standards (IFRS), after which it was decided to adopt IFRS in full of 2011. The internationalization of Korea’s accounting standards and the adoption of IFRS have not only facilitated a substantial improvement in the international competitiveness of Korean companies, but also seen that more transparent and more comparable financial information is provided to international investors and financial institutions, so as to prompt an increase in their investment in Korean companies. Investment in the Korean economy has become more favorable to foreign investors in the wake of compliance with IFRS. As a result, Korea has been able to see capital inflows from abroad, and the capital flow into the economy has led to economic growth. The internationalization of Korea's accounting standards has not only driven Korean companies' acceptance of International Financial Reporting Standards (IFRS), as a way of enhancing harmony with the global accounting environment and furthering the acceptance of internationally accepted standards but has also seen them win greater trust from global investors. In this way, the internationalization of the Korean accounting standards has made a significant contribution not only to the globalization of the economy, but also to an increase in the role played by Korea in international financial markets.

Korean firms and financial institutions are now taking on greater importance and are exercising a greater influence in international markets, assuming greater weight within the global framework. Korea is contributing by adhering to international accounting standards designed to provide global financial markets with greater stability and reliability. Given this context, research needs to continue that explores what criteria are used in accounting standards and how they can be used to innovate new accounting and auditing processes via nexus with blockchain and smart contract technologies. Improvements to the quality of financial information, made possible by data analytics and predictive analytics technologies, will significantly advance financial management and its ability to forecast, while all firms will need to investigate different ways to combine better sustainability management and ESG factors and to develop those policies that allow them not only are compliant as for the challenges of international accounting standards that support them.

Acknowledgement: This work was supported by Hankuk University of Foreign Studies Research Fund.

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